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CASH AND INVESTMENT POLICY

Date of approval by Council

Council Resolution number

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This document is provided to assist management and employees of Moqhaka Local Municipality and to implement and maintain consistent, effective and efficient cash management principles.

The objective of this document is:

- To safeguard cash resources of Moqhaka Local Municipality and to ensure the effective, efficient and economical use thereof; and
- To emphasise a culture of accountability over Moqhaka's cash.

This policy supersedes all financial policy instructions that have previously been issued.

Failure to comply with the prescribed guidelines will result in the institution of disciplinary procedures in terms of the stipulated human resources policies and procedures of MLM.

2) Responsibility

The responsibility of cash management lies with the Municipal manager and the Chief Financial officer. The performance of this function may be delegated to subordinates; this however does not alleviate the responsibility of the Municipal Manager and Chief Financial Officer.

3) Opening bank accounts

The Municipal Manager must open any new bank account in accordance with statutory regulations. (This may lead to the municipality informing national treasury of any new bank account opened).

Only the Municipal Manager or the person, to whom such authority has been delegated, may open a bank account.

4) Performing bank reconciliations

Bank reconciliations should be performed monthly and the CFO should review such reconciliations monthly.

5) Cash flow forecasts

Cash flow forecasts are to be prepared daily, and changes in debt collection ratios and spending patterns should be aligned (adjusted) to the cash flow forecasts and the budgets.

6) Investing surplus cash

Surplus cash should be invested in line with the Investment Policy approved by Council from time to time.



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This document is provided to assist management and employees of Moqhaka and to implement and maintain consistent, effective and efficient investment principles.

All surplus funds of a municipality will be subject to this investment policy.

This policy will be reassessed annually to keep up with industry norms.

This policy supersedes all investment policy instructions that have previously been issued.

Failure to comply with the prescribed guidelines will result in the institution of disciplinary procedures in terms of the stipulated human resources policies and procedures of WALM.

2) Investment Portfolio Committee

An investment portfolio committee should be established to monitor investments activities of the municipality.

The manual of delegation indicates the authorisation for the various limits of investments to be made or withdrawn.

3) Short-term and long-term investments

Short-term investments are those for which the period does not exceed 90 days. These investments are made under the authority of the Chief Financial Officer and the Municipal Manager.

Long-term investments are those for which the period exceeds 90 days. These are made under the authority of the Investment Portfolio Committee.

4) Procurement policy

All investments made should adhere to the procurement policy of the municipality.

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those institutions and for those periods as prescribed by this policy.

Investments are permitted with the following institutions:

- Banks registered in terms of the banks Act 1990, namely
 - ABSA
 - FNB
 - Standard Bank
 - Ned Bank (People Bank, NBS)

The following types of investments and institutions are permitted

- Fixed deposits and call accounts at banks;
- Municipality stock;
- Bankers acceptance certificates or negotiable certificates of deposits of banks;
- Long term securities offered by insurance companies in order to meet the redemption fund requirements of Municipalities; and

6) Controlling investments

Sufficient controls and systems should be implemented and monitored to ensure the efficient and effective management of the Council's investments. (This would include reconciling investments to certificates, or reconciling interest recalculations). Instituting the appropriate systems is the responsibility of the Chief Financial Officer.

7) Risk Analysis

Investment instruments have to be assessed based on liquidity requirements, therefore any monies not necessary for the current operating expenditure of the municipality will be subject to the investment policy.

Counter-party credit risk has to be reassessed based on the credit ratings of the financial intuitions in which investments are held, or in which investments are intended to be made. All counter parties have to be selected through a credit risk analysis

General Treasury Regulations in respect of cash management

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Management Bill a municipality must establish appropriate and
lance with framework prescribed by National Treasury.

- Collecting revenue when it is due and banking it promptly;
- Making payments, including transfers to other levels of government and non-government entities, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the government's normal terms for account payments;
- Avoiding pre-payments for goods or services (i.e. payments in advance of the receipt of goods or services), unless required by the contractual arrangements with the supplier;
- Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the relevant treasury;
- Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the Municipality are collected and banked promptly;
- Accurately forecasting the institution's cash flow requirements;
- Timing the inflow and outflow of cash;
- Recognising the time value of money, i.e. economically, efficiently, and effectively managing cash;
- Taking any other action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or underutilised assets.
- Performing bank reconciliation's on a daily basis to detect any unauthorised entries; and
- Ensuring that dishonoured warrant vouchers and cheques are followed up immediately.
- Petty cash payments refers to expenditure related to the purchasing of small items or expenditure or reimbursement for out of pocket expenditure, and will be limited to R2000
- A petty cash voucher must be authorised by a delegated official and signed for receipt of it by the relevant official.
- Expenditure vouchers must be handed in within 7 working days as of the petty cash expenditure.
- Petty cash payments must be reconciled with every cheque payment request to top up the petty cash.

Statutory guidelines with respect to permitted investments

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rence of the Minister of Finance by notice in the Gazette
ts other than those referred to below in which Municipality
sition Act No. 209 of 1993, section 9, paragraph (b)):

- Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- Securities issued by the National Government;
- Investments with the Public Investment Commissioners as contemplated by the Public Deposits Act, 1984 (Act No.46 of 1984);
- A Municipality's own stock or similar type of debt;
- Internal funds of a Municipality which have been established in terms of a law to pool money available to the Municipality and to employ such money for the granting of loans or advances to departments within a Municipality, to finance capital expenditure;
- Bankers acceptance certificates or negotiable certificates of deposits of banks;
- Long term securities offered by insurance companies in order to meet the redemption fund requirements of Municipalities; and
- Any other instruments or investments in which a Municipality was under a law permitted to invest before the commencement of the Local Government Transition Act, 1996: Provided that such instruments shall not extend beyond the date of maturity or redemption thereof.

Controls over investments

- All investments should be made in line with statutory regulations (Ordinance requirements, GAMAP, the Local Government Transition Act, and the Municipal Finance Management Bill (when enacted)
- Surplus funds should be reviewed monthly by the CFO, and were such surpluses are not necessary for current operational or capital expenditure; it should be invested within 10 working days.
- Cash flow forecasts should be prepared to determine whether surplus funds should be invested long term or short term.

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vestment the CFO should review counter-party credit risk based recommendations to the Municipal Manager.

- The Municipal Manager and the CFO - for short-term investments - and the CFO and the Portfolio Investment Committee ó for long-term investments - should select all counter parties through credit risk analysis, and prepare a list of all prospective counter parties.
- Any employee that has an interest in any of the above investment institutions should disclose his/her interest and be prevented from making a decision in respect of that entity.
- From the list of counter parties, the relevant parties should select at least 3 institutions in order of credit risk analysis.
- Requests for proposal should be issued to these 3 institutions requesting them to provide quotations for all details of the investments (i.e. interest rates offered, time frames, maturity values, confirmed values etc.)
- Not more than 20% of the funds of the municipality should be invested within a single institution, and the investment should not exceed 10% of the relevant institutions shareholders funds.
- The CFO and Municipal Manager should establish limits per investment institution and the Portfolio Investment Committee and Council should approve those limits annually. Where possible at least the capital values of the investments should be secured.
- The CFO and Municipal Manager should determine the investment limits per instrument that has to be approved by the Portfolio Investment Committee and council annually.
- When an investment needs to be encashed or invested, the CFO must submit a recommendation to the Municipal Manager, as to why.
- The Municipal Manger after consultation with the relevant parties will then authorize the institution, instrument, and the amount to be withdrawn or invested by signing the transfer approval, and submitting it to the CFO for processing.
- The CFO will make the transfer to or from the municipality's bank account.
- A register of investments should be maintained by the CFO.
- The CFO should obtain confirmation of the transfers, from the investment institutions and the bank.

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reconciliation between the transfer approval, the confirmations register, and he/she should sign the reconciliation as correct

- Investments withdrawn and made should only be posted to the general ledger by the CFO.
- The Accountant should reconcile the investments in the general ledger to statements, and transfer approvals monthly.
- Interest earned on investment should be recalculated and agreed to the confirmations.
- The reconciliation has to be approved by the CFO, and he/she has to sign it as correct.
- The CFO should monitor the limits of investments weekly, and bring any major abnormalities to the attention of the Municipal Manager and the Portfolio Investment Committee immediately.
- An investment report on the performance of investments should be compiled monthly by the CFO, and submitted to the Municipal Manager.
- The Municipal Manager should compile a monthly report on investments to the Portfolio Investment Committee and Council.

F Steps for addressing cash flow difficulties

First steps to be taken in addressing cash flow difficulties are:

- Ensuring that the IDP, budget and tariff structure are accurate and valid.
- Compiling a proper business plan to be discussed with financial institutions and Provincial government, to ensure that sufficient resources be made available to avoid liquidity and/or going concern problems.
- Implementing and monitoring sufficient controls and systems. (This would include ensuring that all funds are collected and banked promptly, and monitoring debt collection ratios)
- Utilising professionals to investigate organizational restructuring to ensure Council concentrate on the core business units and make recommendations on privatisation, other cost saving measures and to investigate that the necessary skills and training are obtained to ensure best value for the consumers and ratepayers.
- Ensuring that adequate systems, skills and capacity are available to ensure that accurate cash-flow forecasts are compiled that must lead to budget adjustments if necessary

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are prescribed by legislation. Items overlap with the revenue management policy. These policies will need to be considered and updated in tandem. The overriding philosophy of cash management is to collect more cash than is necessary to spend. In doing so, all polices of the municipality should be adhered to.

Controls should be implemented to ensure the completeness of revenue. The revenue guidelines should be applied simultaneously in this aspect.

- All direct deposits and cash received from customers should be recorded, and a sequential/numerical receipt should be issued for every cash transaction entered into.
- All copies of cancelled receipts should be retained.
- Daily receipts should be reconciled to till slips, debtors and income accounts, and actual cash.
- Sufficient physical controls should be implemented over cash and the transit of cash
- Sufficient security controls should be implemented in the municipalitiesø premises that would prevent theft and fraud.
- Cash should be banked daily with the use of a security company
- Once the cash is banked, the deposit slips should be reconciled to the daily receipts summary and authorised correct
- Variance reports should be prepared daily for non-reconciling items. These variance reports should be followed up and reviewed by a senior official daily.
- Sufficient controls should be implemented to allocate direct deposits to individual debtor accounts. Customers should be warned that if no reference to their account can be obtained from the deposit slip, their accounts would not be credited.
- Unfavourable cash collection ratios should be followed up in line with the revenue guidelines

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penditure management, the municipality should be structured to be cost effective. Staff structures should be efficient, effective and economical to realise the benefits of economies of scale.

- All payments should adhere to the municipality's procurement policy
- Creditors should be paid in line with budgets, cash flow forecasts, and limits in terms of the delegation of authority.
- Advantage should be taken of good credit terms and early settlement discounts
- Payments should only be made for services/goods once delivery has taken place
- Preventative maintenance should be conducted to avoid increased future costs
- Adequate buffer stock should be kept to take advantage of price increases, at the same time redundant stock should not be purchased.
- Wasteful and unnecessary expenditure should be avoided.
- The principles of time value of money should be taken into account when payments are made.
- All aspects of the treasury guidelines (See section 2) in the policy should be adhered to at all times.

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ns should be in place.

Refer to drawer cheques

Accounts should immediately be debited with cheque amount and bank costs.

The normal credit control procedures should apply

oRDö cheques should be recorded in a register to follow up the replacement thereof with cash per Department.

oRDö cheques not replaced by cash should be recorded in the cashier's system to minimize the acceptance of another cheque from the same person/establishment.

Proper recording of cheques received (cheques lost in transit)

The purpose for recording is:

- To have information on date of cheques received and to determine the validity of interest on late payments.
- To reconcile cheques received with those recorded on the cashier systems.
- To have a complete database of cheques received, especially to follow up cheques lost in transit. To prevent financial loss and unnecessary complaints from clients, the following detail should be recorded:
 - Name of drawer
 - Cheque account and cheque sequence number
 - Amount of cheque
 - Reference to account number

Due to capacity constraints, we recommend an efficient scanning system to record lists of cheques and cheque deposits slips. A database thereof will ensure efficient follow up of deposits not yet banked.

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can be time a consuming exercise, therefore the following procedure and systems should be considered:

- Ensure that cashier deposits and cashbook deposit entries are the same per bank transaction.
- Electronic payments to Council should not include commission or admin fees. (Arrange with service suppliers to charge commission and other administrative fees separately, or distinguish between administrative costs and income per account by program with a proper bank reconciliation system.)
- Arrange with service suppliers always to provide account numbers for electronic payments, and not to accept payments without account detail.
- A proper bank reconciliation system will minimise matching problems by the availability of many matching options and special programs to address the follow up of variances. (To remove commission/admin fees from certain electronic transfers).
- Deposits through cash-book not banked could pose a fraud risk, and should be immediately and thoroughly investigated

Follow up of outstanding cheques

Outstanding cheques should always be followed up to prevent unnecessary legal action or interest payments. Therefore, outstanding cheques that cannot be traced (taking delivery time into consideration) should immediately be cancelled and replaced with other cheques.

Cheques through bank and not through cashbook could represent a fraud risk, and should be immediately and thoroughly investigated.

Controls to minimize cash, cheque and electronic payment fraud

A proper internal control system on cash cheques and electronic transfers should be in place to prevent / minimize fraud. The following main controls should be in place:

- Proper controls on receiving system
- Sufficient controls on depositing of money
- Proper authorization of all payments
- No cash cheques should be issued
- Proper crossing of cheques received and issued
- Proper safeguarding of cheques (Cheques not yet issued and cheques already through bank)

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prevent theft

nize the effects of theft and robbery

Updating budgets and cash flow forecasts

Factors to be considered in preparing accurate cash flow forecasts include the following:

The efficiency and effectiveness of the bank reconciliation system in use

The system should be efficient, effective and user friendly to ensure prompt reconciliation between bank and cashbook. The bank reconciliation should be performed on a daily basis.

It is of utmost importance that the bank reconciliation be updated on a daily basis for cash-flow forecasting purposes and to enable management in making recommendations to Council to adjust the budget if necessary.

Without realistic cash inflows and outflows the cash flow forecasts will not be relevant. Budgets should therefore be prepared taking into account debt collection ratios and actual expenditure patterns to avoid the misconceptions that cash funds are available for spending.

Records and Documents

The CFO should ensure that following documents are filed as follows:

- Cancelled cheques in cheque sequence
- Cheque requisitions in cheque sequence
- Deposit slips in date order
- Bank statements in date order
- Returned cheques with supporting documentation in cheque number order.
- Cash book in date order
- Bank reconciliations in date order
- Securities in date order
- Direct deposits amounts with supporting documentation in date order.